

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF ADJUSTMENT OF THE RATES	)	
OF KENTUCKY-AMERICAN WATER COMPANY	)	CASE NO. 10481
EFFECTIVE ON FEBRUARY 2, 1989	)	

O R D E R

This matter arises upon petition for rehearing filed jointly by the Utility and Rate Intervention Division of the Office of the Attorney General and the Lexington-Fayette Urban County Government (jointly "AG/LFUCG") of the Commission's Order authorizing Kentucky-American Water Company ("Kentucky-American") to increase its water rates.

On August 22, 1989, the Commission, by Order, authorized Kentucky-American to increase its water rates. On September 12, 1989, the AG/LFUCG, by petition sought reconsideration of nine separate issues considered by the Commission in its Order. By Order entered October 2, 1989, the Commission granted reconsideration of two issues and denied reconsideration of the remaining seven. A public hearing was conducted on December 20, 1989 on the issues granted reconsideration, at which all parties appeared by counsel.

30-INCH WATER MAIN

One of the issues granted reconsideration was whether it was proper to include in the rate base a 30-inch water main that was placed into service after the test period used to establish

the new rates. In including the new main in the rate base, the Commission considered information contained in monthly reports filed by Kentucky-American for periods ending after the test period. The reports were not a part of the record in these proceedings and the Attorney General petitioned the Commission for an opportunity to "confront and cross-examine on any post-test year monthly reports" considered by the Commission. On October 11, 1989, Kentucky-American in accordance with the Order of October 2, 1989 filed copies of the monthly reports for the months following the post test-year period, that were considered by the Commission in the August 22, 1989 Order. Copies of the reports were served upon the AG/LFUCG, who after having an opportunity to review them, declined to challenge the reports or to introduce any evidence pertaining to the information contained in them at the December 20, 1989 hearing. Therefore, the Commission should affirm its decision set forth in its August 22, 1989 Order to include the 30-inch water main.

#### EXTENSION DEPOSITS

The second issue granted reconsideration was whether extension deposits should be excluded from rate base. Extension deposits represent funds credited to an account for refund to contributors who advance funds to Kentucky-American to extend water mains to new customers. The funds advanced for construction are credited upon receipt by Kentucky-American to a customer advance account. As each new customer is connected to the extended section, Kentucky-American is notified and an amount attributable to the new customer's pro-rata share of the

construction is transferred from the customer advance account to the extension deposit account. After Kentucky-American has had an opportunity to verify the new customer's connection, the amount attributable to that connection is refunded to the contributor who advanced the funds for the construction of the extension. In the August 22, 1989 Order, the Commission rejected the proposal by the AG/LFUCG to reduce Kentucky-American's rate base by the amount of the extension deposits. The AG/LFUCG contends that the rejection of its proposal to deduct extension deposits from rate base allows company investors to earn a return on non-investor supplied capital.

The extension deposit account represents funds payable by the utility much the same as a capital debt obligation. Therefore, when funds are credited to the extension deposit account, they constitute an investment in the facilities for which the obligation was incurred.

As noted by Kentucky-American, if there is any complaint, it should be on the part of the contributors who paid the advance but received no interest from the funds for the period that they are credited to the extension deposit account and thereby constitute an obligation owed to them by Kentucky-American. These contributors are thus in effect providing an interest free loan to Kentucky-American which, together with the increased number of customers, results in lower rates to existing ratepayers. Therefore, the Commission should affirm its findings and conclusions set forth in its August 22, 1989 Order pertaining to the extension deposits.

This Commission being otherwise sufficiently advised,

IT IS ORDERED that:

1. The exclusion of the 30-inch water main from Kentucky-American's rate base as proposed by the AG/LFUCG is hereby denied.

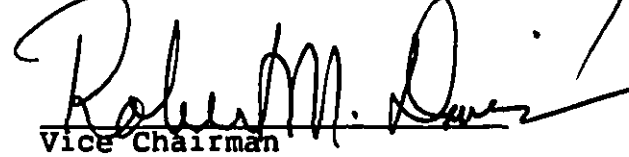
2. The reduction of Kentucky American's rate base by the extension deposits as proposed by the AG/LFUCG is hereby denied.

3. The general increase in rates set forth in the Order of August 22, 1989 is hereby affirmed.

Done at Frankfort, Kentucky, this 7th day of March, 1990.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

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Commissioner

ATTEST:

  
Executive Director